

IRAS e-Tax Guide

**Claiming of GST on re-import of value-added goods
(Second edition)**



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Claiming of GST on re-import of value-added goods

1. Aim

- 1.1 This e-Tax guide explains the qualifying conditions under which a GST-registered business is entitled to claim GST incurred on the re-import of goods previously sent overseas for value-added activities.
- 1.2 You should read this e-Tax guide if you send your customers' goods overseas for value-added activities.

2. At a glance

- 2.1 In the course of your business, you may send goods belonging to your local customers or GST-registered overseas customers abroad for value-added activities (for example testing, repair or assembly). You would incur import GST when you subsequently re-import the goods into Singapore.
- 2.2 Prior to 1 Jan 2015, you are not entitled to recover the full import GST as your input tax¹ unless the Comptroller of GST grants remission under Section 89(1) of the GST Act. This is even though you have paid the import GST and are named as the importer on the GST payment permit.
- 2.3 To relieve the burden of irrecoverable GST cost and ease compliance for businesses, amendments have been made to the GST legislation to allow you to claim the full import GST from 1 Jan 2015², provided that you satisfy the conditions and requirements set out in this e-Tax guide.

3. Glossary

3.1 Value-added activities

Mean any process or treatment applied to or carried out on goods. Examples of value-added activities include testing, repair, fabrication, manufacturing, refining. Logistics services, leasing or similar activities are to be excluded.

3.2 Customer

Refers to the person you contract with to supply value-added activities on goods belonging to him. The customer must be:

- (a) a person who belongs in Singapore (i.e. local customer); or
- (b) a GST-registered person who belongs outside Singapore (i.e. overseas customer).

¹ Correspondingly, you are not entitled to import the goods using your GST suspension privileges such as the Major Exporter Scheme.

² Supporting legislation: section 33B of the GST Act and regulation 42B of the GST (General) Regulations.

The customer is treated as belonging in Singapore if he:

- i. has a business or fixed establishment in Singapore and nowhere else;
- ii. has no business or fixed establishment in any country but he is legally constituted in Singapore (e.g. company incorporated in Singapore); or
- iii. has business or fixed establishments both in Singapore and outside of Singapore. However the establishment which is most directly concerned with the supply of value-added activities being made to him is the establishment in Singapore.

Business establishment

Your customer will be treated as having a business establishment in Singapore if:

- his main seat of economic activity is in Singapore;
- he carries on his business through a branch in Singapore; or
- he carries on his business through an agency in Singapore.

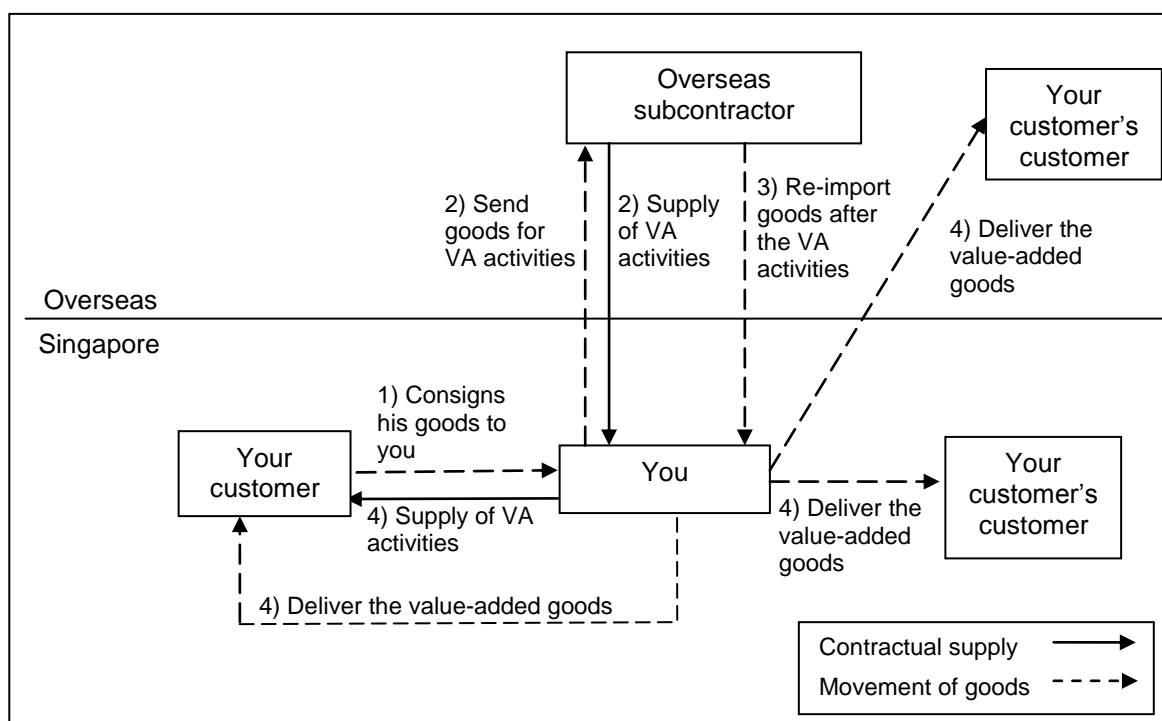
The main seat of economic activity refers to the place where the essential decisions concerning the general management of the company are made and where the functions of its central administration are carried out. It usually refers to the head office, headquarters or principal place of business.

Fixed establishment

A fixed establishment is an establishment, other than the business establishment, that has both the technical and human resources to provide and receive services on a permanent basis.

4. Background

- 4.1 For business reasons, you may outsource part or the full scope of value-added activities ('VA') you are contracted to supply, to your overseas facility, overseas subsidiary or your overseas subcontractor [referred to collectively in this guide as "overseas subcontractor"]. In such situations, you will send the raw materials, semi-finished or finished goods belonging to your customer to the overseas subcontractor for the value-added activities and subsequently re-import the value-added goods.



- 1) Your customer contracts with you to supply value-added activities on the goods which he consigns to you.
- 2) You send your customer's goods to your overseas subcontractor, who physically performs a part of or the entire value-added activities. Your overseas subcontractor invoices you for the value-added activities that were performed on your customer's goods.
- 3) Once the value-added activities are completed, you re-import the value-added goods into Singapore and pay the import GST. Depending on your contract with your customer, you may perform other value-added activities on the goods before or after they are re-imported.
- 4) Once you have completed your value-added activities, the goods are delivered back to your customer or to a location based on his instructions. You invoice your customer for the value-added activities.

5. Qualifying Conditions

5.1 If you are re-importing the value-added goods into Singapore on or after 1 Jan 2015, you are entitled to claim the full GST incurred on the re-import as your input tax, subject to the conditions stated below.

- (a) You re-import the value-added goods within 6 months from the date the goods are sent overseas for value-added activities, or such longer period as the Comptroller may allow on a case-by-case basis³;
- (b) You must retain control⁴ over the goods from the time your customer consigns the goods to you and up to the point you deliver the value-added goods back to your customer or to any other person as instructed by your customer;
- (c) You must not be reimbursed for the GST incurred on the re-import of the value-added goods;
- (d) All the value-added activities performed by the overseas subcontractor, including the addition of any new goods must be based on your instructions and provided for in your contract/ agreed scope of works with your customer;
- (e) You must make an onward taxable supply of the value-added activities performed on the goods to your customer before you cease business or deregister from GST, whichever is earlier;
- (f) You must hold a GST payment permit in your name to substantiate your input tax claim. If you have been granted the Major Exporter Scheme (MES), Import GST Deferment Scheme (IGDS), Approved Contract Manufacturer and Trader (ACMT) scheme as an ACMT Contract Manufacturer (ACMT CM) or Approved Refiner and Consolidator Scheme (ARCS) as an Approved Refiner, you can use the import suspension/deferment privileges of the schemes to re-import the value-added goods without paying GST⁵. The import permit must reflect your name as the importer of record; and
- (g) You must also comply with any other conditions or restrictions as the Comptroller may impose from time to time or on a case-by-case basis.

³ You must obtain prior written approval from the Comptroller for a longer period.

⁴ If you have oversight of the goods, you are considered as having control over them although the goods may be physically outside Singapore.

⁵ Please note that the import GST suspension privilege do not extend to the Approved 3rd Party Logistics Scheme. If you are approved under the Approved Import GST Suspension Scheme, the scheme already allows for you to import qualifying aircraft parts belonging to your local or overseas customers in certain circumstances. Please refer to the e-Tax guide "GST: Approved Import GST Suspension Scheme (AISS)".

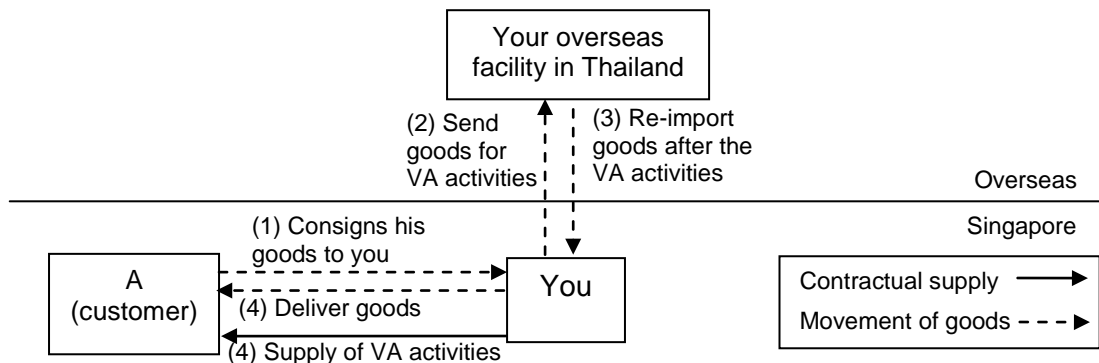
6. Examples of value-added activities and arrangements

6.1 The following illustrations are examples of value-added activities and arrangements which qualify for full claiming of import GST under the new law.

Example 1

You contract with local Company A to supply assembly and coating on semi-finished goods consigned to you by A. The assembly works are performed by you in Singapore, after which you send the goods to your overseas facility in Thailand for the coating works.

Once the coating works are completed, you re-import the value-added goods and thereafter deliver the goods back to A's business premises in Singapore. You paid the GST incurred on the re-import of the goods and the GST payment permit is taken up in your name (i.e. you are the importer of record).



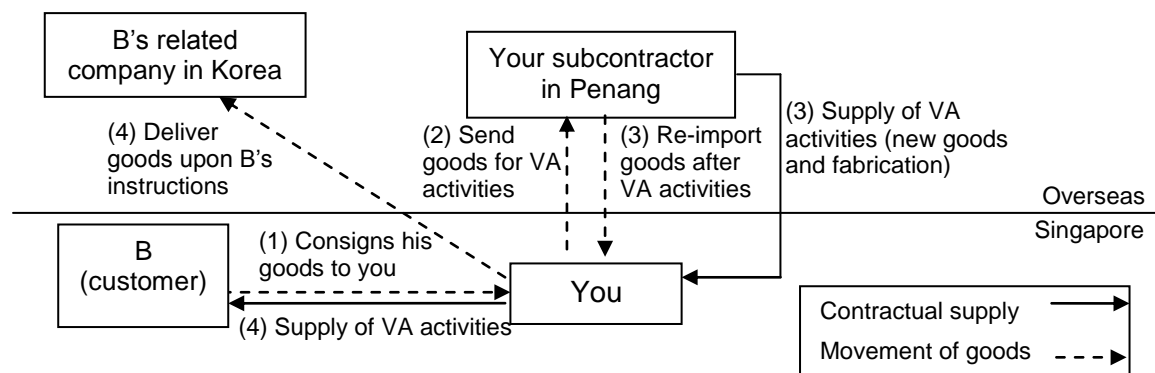
As you satisfy all the conditions listed in paragraph 5.1, you can claim the full GST incurred on the re-import of value-added goods from Thailand as your input tax.

Your supply of value-added activities to Company A is a standard-rated supply since the goods are delivered to your customer in Singapore.

Example 2

You contract with local Company B to supply fabrication works on B's semi-finished goods consigned to you. You send the goods to your subcontractor in Penang to perform the fabrication works. Your subcontractor will add new goods to B's semi-finished goods in order to complete the fabrication works. Your subcontractor will invoice you for the new goods added and the fabrication works performed. Once the works are completed, you re-import the value-added goods.

You paid the GST incurred on the re-import of the goods and the GST payment permit is taken up in your name (i.e. you are the importer of record). After the re-import, B instructs you to deliver the goods to his related company in Korea.



As you satisfy all the conditions listed in paragraph 5.1, you can claim the full GST incurred on the re-import of value-added goods from Penang as your input tax.

On the basis that the fabrication works you have performed on Company B's goods have resulted in new or different goods being produced, your supply of value-added activities to Company B is a supply of goods⁶ which is zero-rated since the goods are exported out of Singapore.

You need to maintain proper export documents⁷ to support the zero-rating.

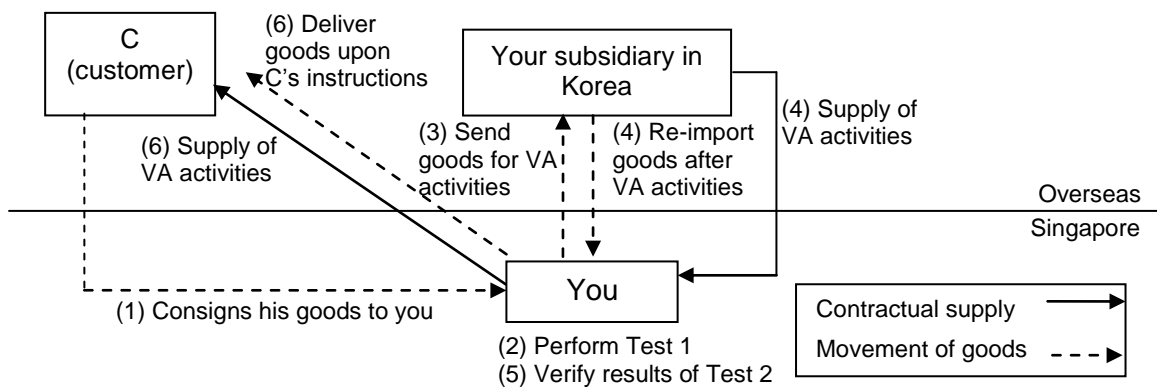
⁶ You are regarded as making a supply of goods for GST purpose if you process or treat your customers' goods such that new or different goods are produced as a result i.e. there is a change in the nature or character of the original goods. Where there is no change in the character or nature of the original goods, you are making a supply of services for GST purpose.

⁷ For more information on documentation to be maintained, please refer to the e-Tax Guide "A Guide on Exports"

Example 3

You contract with a GST-registered overseas customer, Company C, to supply testing services on his goods which he has imported and consigned to you. It is specified in the contract that the testing would involve two stages and you bill C progressively as shown below. You carry out Test 1 yourself in your factory in Singapore, after which you send the goods to your overseas subsidiary in Korea to carry out Test 2. Thereafter, you re-import the goods into Singapore to verify the results of Test 2 before exporting the goods based on C's instructions. You paid the GST incurred on the re-imported goods and the GST payment permit is in your name.

| | |
|---|----------|
| First payment on completion Test 1 | \$10,000 |
| Final payment on completion of Test 2 and delivery of goods | \$20,000 |



As you satisfy all the conditions listed in paragraph 5.1, you can claim the full GST incurred on the re-import of value-added goods from Korea as your input tax.

Since the tested goods (after completion of both Tests 1 and 2) are exported, you can zero-rate your entire supply of the testing services (i.e. both payments of \$10,000 and \$20,000) to C, an overseas person, under section 21(3)(g) of the GST Act.

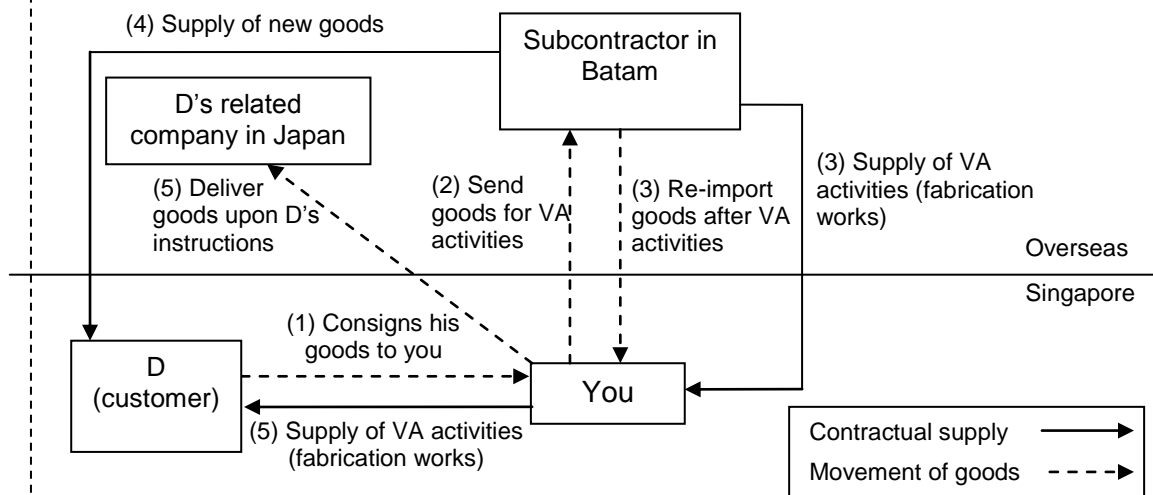
However, if you are instructed to deliver the tested goods locally, you must standard-rate your entire supply of the testing services (i.e. the \$30,000). Since your contract with C requires you to render both Tests 1 and 2 and also deliver the goods back to him, your services are considered to be performed/completed only upon delivery of the goods back to C. You cannot zero-rate the payment of \$10,000 on the basis that the goods are exported to your subsidiary in Korea for value-added activities.

6.2 The following illustration is an example of an arrangement which would not qualify for full claiming of import GST under the new law.

Example 4

You contract with local Company D to supply fabrication works on D's semi-finished goods consigned to you. You send the goods to a subcontractor in Batam to perform the fabrication works. **The subcontractor, upon the instructions received directly from D, also adds new goods to D's semi-finished goods in order to complete the fabrication works.** The subcontractor will invoice D for the new goods added and invoice you for the fabrication work performed. Once the works are completed, you re-import the value-added goods.

You pay for the GST incurred on the re-import of the goods and the GST payment permit is taken up in your name (i.e. you are the importer of record). After the re-import, D instructs you to deliver the goods to his related company in Japan.



Given that your contract with Company D did not include the supply of the new goods added, (i.e. the subcontractor supplies the new goods directly to Company D), you will not be eligible to claim the full GST incurred on the re-import of value-added goods from Batam [condition in paragraph 5.1(d) is not satisfied].

In this case, you may be allowed to claim only a portion of the import GST attributable to your supply of value-added activities to the customer. On a case-by-case basis, the Comptroller may approve such requests for partial input tax claim based on a reasonable proxy, provided that the GST payment permit is in your name.

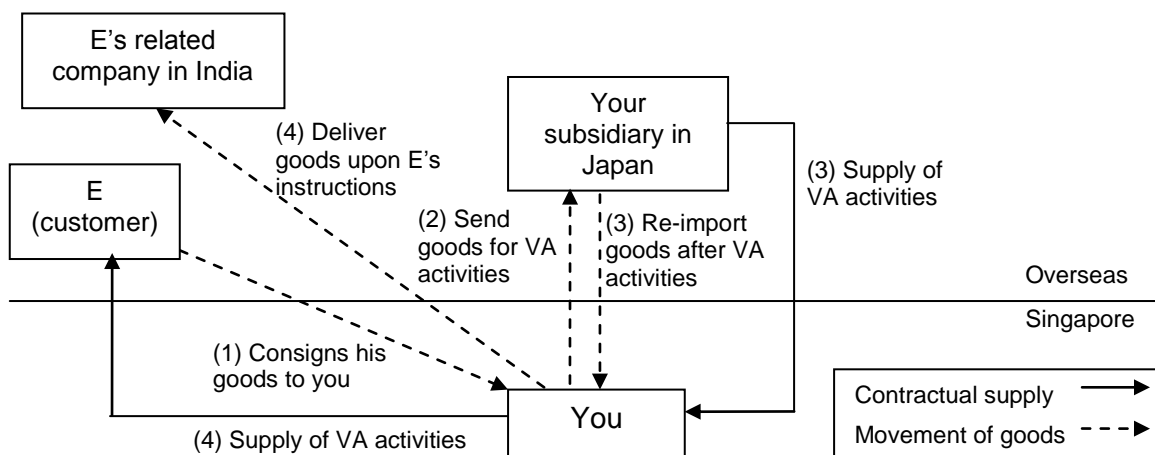
7. Consequences of failing to satisfy qualifying conditions

- 7.1 If you have claimed or suspended the GST on the re-import of the value-added goods as your input tax but fail to satisfy any of the conditions in paragraph 5.1 (for example, you obtain reimbursement for the import GST), you are required to repay the import GST to the Comptroller.
- 7.2 In such a situation, you have to account for the GST as output tax in the GST return (i.e. Box 6) corresponding to the accounting period in which you first fail to satisfy any of the conditions.
- 7.3 Depending on the circumstances, you may also incur penalties for making incorrect returns under the GST Act.
- 7.4 The following is an example where you incurred and claimed GST on the re-import of goods but fail to satisfy the conditions in paragraph 5.1.

Example 5

You contract with a GST-registered overseas customer, Company E, to supply testing services on his goods which he has imported and consigned to you. You send the goods to your overseas subsidiary in Japan to perform stage 1 of the testing.

After stage 1 of testing is completed, you re-import the goods into Singapore and continue with further testing. You pay the GST incurred on the re-import of the goods and the GST payment permit is taken up in your name (i.e. you are the importer of record). After completing your testing services, E instructs you to deliver the goods directly to his related company in India.



On the understanding that you satisfy all the conditions listed in paragraph 5.1, you claim the full GST incurred on the re-import of value-added goods from Japan in your GST return. Subsequently, Company E reimburses you for the import GST paid. You are required to repay the import GST previously claimed and account for the output tax in the GST return for the period in which you received the reimbursement.

8. Consequences of cessation of business or deregistration from GST

- 8.1 If you intend to cease business or deregister from GST after you have claimed the full GST on the re-import of value-added goods, you must ensure that you make your taxable supply of the value-added activities to your customer before cessation or de-registration. Otherwise, you are required to repay the import GST that was previously allowed to you as input tax since you would not satisfy the condition in paragraph 5.1(e).

Example 6

You contract with Company F to supply manufacturing services on raw materials consigned to you by F. You send the goods to your subsidiary in China for part of the manufacturing work to be performed. Thereafter, you re-import the value-added goods to continue with the manufacturing process.

You paid the GST incurred on the re-import of the goods and the GST payment permit is taken up in your name. You claimed the full GST incurred on the re-import of value-added goods from China.

Due to poor economic outlook, your business turnover drops substantially and you decide to de-register from GST.

If you complete the manufacturing activities and invoice/receive payment from Company F for your contracted supply while you are still registered for GST, your supply to Company F will be taxable. You will then be entitled to claim the full GST incurred on the re-import of value-added goods from China.

If on the other hand, you de-register from GST before completing your contracted manufacturing activities (and your subsequent supply to the customer is therefore not taxable), you will not be entitled to claim the GST incurred on the re-import of value-added goods from China. Since you had already claimed the GST when you re-imported the goods previously, you are required to repay the import GST as the condition in paragraph 5.1(e) will not be satisfied.

The tax should be accounted for under 'Output Tax Due' (Box 6) in the GST return corresponding to the date of cessation of your business or the GST F8 (Final Goods and Services Tax Return) in the case where you deregister from GST.

9. Reporting and record-keeping requirements

- 9.1 When you send goods overseas for value-added activities, you are required to report the removal of the goods from Singapore under 'Total Value of Zero-rated Supplies' (Box 2) in your GST return and maintain the required export documentation⁸.
- 9.2 Upon re-importing the value-added goods, you are required to report the import and corresponding GST incurred as 'Total Value of Taxable Purchases' (Box 5) and 'Input Tax and Refunds Claimed' (Box 7) respectively⁹ in your GST F5 return corresponding to the date of the import.
- 9.3 If you are approved under the relevant import GST suspension/deferment scheme (as mentioned in paragraph 5), the import GST can be suspended. You are still required to report the imports under 'Total Value of Taxable Purchases' (Box 5) and 'Total Value of Goods Imported under the Approved Schemes' (Box 9).
- 9.4 To support your input tax claim or use of your import GST suspension/deferment privileges on the re-import of the value-added goods, you should maintain the following documents:
- (i) Contract/agreement with your customer or purchase order/written instructions from your customer for your supply of value-added activities on the customer's goods.
 - (ii) Contract/agreement with your overseas subcontractor or purchase order/written instructions to your overseas subcontractor for his supply of value-added activities to you.
 - (iii) Export documents relating to the goods sent to overseas subcontractor for the value-added activities.
 - (iv) Import permit and supporting documents relating to your re-import of the value-added goods. You must be named as the importer of record on the permit.
 - (v) Tax invoice to your customer for the value-added activities supplied on his goods, including supporting documents¹⁰.

⁸ For more information on documentation to be maintained, please refer to the e-Tax Guide "A Guide on Exports".

⁹ For goods imported using IGDS, you should also declare the value of goods imported and the deferred import GST payable in the IGDS Section of your GST return.

¹⁰ For example, export/delivery documents in relation to the subsequent delivery of the re-imported value-added goods after completion of your contracted supply.

10. Recovery of GST on re-import of goods belonging to non-GST registered overseas customers

10.1 If you re-import value-added goods belonging to your non-GST registered overseas customers, you can recover the import GST incurred provided that you satisfy the conditions of section 33A of the GST Act and Regulation 42A of the GST (General) Regulations. Please refer to the e-Tax Guide “GST: Guide on Imports” for more information.

11. Contact Information

For enquiries on this e-Tax Guide, please contact:

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12. Updates and Amendments

| | Date of amendment | Amendments made |
|---|--------------------------|--|
| 1 | 25 May 2016 | Amended the definition of business establishment in paragraph 3.2 |
| 2 | 1 Jun 2016 | Replace “GST Guide for the Aerospace Industry” in footnote 5 with new e-Tax guide “GST: Approved Import GST Suspension Scheme (AISS)”. |